



VOL. 30, NO. 11, DEC. 1996

# Caravan

1996: The Year End Review

## A year of challenges and victories

For R.J. Reynolds Tobacco Co. employees, 1996 has been a challenging year. RJR endured constant attacks from the anti-tobacco industry, new lawsuits from plaintiffs attorneys and attempts by corporate raiders to take over the parent company. But, challenges are nothing new to RJR, and employees faced them with resolute determination.

The year also brought positive news. RJR continued to solidify its strategic goals. New and exciting products and marketing programs were introduced. Company employees rallied to help defeat corporate raiders Bennett LeBow and Carl Icahn in their attempt to take over RJR Nabisco. Although 1996 was a year of challenges, employees answered the call as a team, and RJR's future is promising.

### Legal

The year brought a variety of lawsuits against RJR and other tobacco companies. The lawsuits fall into three categories: individuals, class actions, and attorneys general (AG) suits, initiated by attorneys general in 20 states.

The individual suits are brought by smokers or their families who claim that they were unaware of the risks associated with smoking, that tobacco companies misrepresented the potential adverse health consequences of smoking to consumers and/or that they were "addicted" to smoking and could not quit.

"Essentially, the individually brought cases evolve from people who have chosen to smoke their entire adult lives, in face of known smoking risks, and now they want to be compensated by the ►►►



*Volunteers manned tables prior to the company's annual meeting explaining the RJR proxy cards to employees. Others made personal phone calls to stockholders across the country in support of RJR's current management team.*



*Charles A. Blixt, senior vice president and general counsel for R.J. Reynolds Tobacco Co., led RJR's litigation team in a myriad of legal challenges during 1996.*



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tobacco companies," says Chuck Blixt, RJR senior vice president and general counsel. "Juries have consistently rejected this rationale until this summer when a Florida jury ruled against American Tobacco Company. Significant errors were made by the court in that case — and we believe grounds for turning over this opinion."

RJR is currently facing about 248 such lawsuits; two-thirds of which are in Florida. They are being driven by three Florida-based law firms that have advertised in an effort to get people to sue.

The only individual case tried by RJR in 1996 was the Rogers case in Indianapolis. The plaintiff, Mrs. Rogers, sought to recover money from tobacco companies for her husband's health problems, and subsequent death, which she claims were caused by tobacco. In addition, she claims Mr. Rogers could not quit smoking, and tobacco companies withheld information about the potential health risks from smoking; therefore, they are liable for his illness and death. The jury rejected Rogers arguments and ruled in favor of RJR and its three co-defendants.

"We were very pleased with the ruling in Rogers," says Blixt. "I think it proves that juries still believe in personal responsibility."

Lawyers initiating class-action lawsuits against Reynolds Tobacco were also handed a major defeat in 1996 in the Castano case. Some 60 law firms had pooled \$6 million in resources and filed a class-action suit in Federal District Court in Louisiana.

Castano alleged to represent all current and former smokers and family members of deceased smokers addicted to nicotine.

Class-action lawsuits attempt to put plaintiffs who are very similar in circumstances they bring to court into one "class" to eliminate the need for the courts to go over the same legal issues in each case. In Castano, the trial court certified part of the suit, but the industry won on appeal to the Fifth Circuit Court of Appeals. Calling the addiction claim brought in the suit "novel," the court pointed out that no consideration was given to how such a novel



RJR employees (from left) Mike Utt, Jo Ann Brown, Susan Baker, Rick Davidson and Mike Draughn wrote more than 600 computer programs to create a new manufacturing application for production planning.



RJR employee Dorothy Henley attended one of the group meetings held by the Eclipse brand team to introduce employees to the new brand. Eclipse is currently in test market.

theory could be tried. The court also concluded that because there are more differences than similarities among smokers, the lawsuit did not meet federal rules to qualify as a class action.

"Once again, we are convinced we will prevail when these cases are given a fair hearing in front of an impartial court or jury," says Blixt.

The attorneys general (AG) suits present a new tactic by the anti-tobacco industry. After taxing and licensing tobacco for sale as legal products, AG's in 20 states are now suing to seek money the state claims it spent to treat Medicaid patients allegedly injured by smoking.

"The AG suits represent a whole new legal theory never seen in our judicial process. We believe they unfairly deprive us of Constitutional rights of due process. The attorneys general know that, which leads to our conclusion that these suits are simply politically motivated," says Blixt. "These politicians see no downside to kicking the tobacco industry. Here again, we are convinced the law will prevail, and we will win these suits."

Despite the number and varied type of lawsuits filed against tobacco companies, legal experts both inside and outside of the industry say that the arguments advocated by anti-tobacco lawyers are based on un-

tested legal theories, which have very little basis in law or fact.

#### FDA Regulation

In August, President Clinton approved the assertion of regulatory authority by the Food and Drug Administration (FDA) over the tobacco industry, repudiating 90 years of consistent congressional, administrative and judicial history denying the FDA such authority. FDA Commissioner David Kessler has classified cigarettes as "drug-delivery devices" over which the FDA has authority under the Food, Drug and Cosmetics Act. In November, Kessler announced his intention to resign as head of the FDA. He indicated he would stay on at the agency until a new commissioner could be found.

Kessler and the Clinton Administration have cloaked the new regulations in the politically correct posture of protecting children from tobacco marketing. They would, however, severely limit tobacco companies' ability to market their products to adults and would impose all of the FDA's medical regulations on the tobacco industry.

The regulations are set to phase in over the next two years. Immediately after President Clinton's announcement, ad agency Coyne Beahm, and tobacco companies Brown & Williamson, Lorillard, ►►►

# No additives.

# New Winston

# True taste.

MADE IN GERMANY BY WILSON & GILBERT  
Bristol, England, U.K.

*On July 1, the Winston marketing team began testing a potential repositioning of the brand in the state of Florida. Retail presence materials are just one way the brand communicates Winston's "All-taste, No additives, No bull" message to smokers in the test market.*



*Joe Camel stomped across America for the Camel brand in billboards such as the one above.*

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*Carrying the Olympic torch was a distinct honor for RJR employees Robert Egleston and Sheila Cash.*

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Philip Morris and R.J. Reynolds amended its suit in U.S. District Court in Greensboro, N.C., asking the court to rule on the jurisdiction issue.

The companies' primary position in this lawsuit is that Congress never intended to provide FDA jurisdiction over tobacco. In fact, previous FDA commissioners have stated that the FDA does not have jurisdiction over tobacco products as they are marketed.

While legal proceedings may continue for a number of years, the court has scheduled a hearing for Feb. 10, 1997.

On a separate federal regulatory front, the Occupational Safety and Health Administration's (OSHA) indoor air quality (IAQ) rulemaking procedure continued in 1996. OSHA is currently considering rules that would effectively prohibit smoking in the workplace. While OSHA's activities did not receive a lot of media attention in 1996, they are still pending and could be an issue in 1997.

### Youth Non-Smoking Programs

RJR's "Right Decisions, Right Now" youth, non-smoking campaign enjoyed a phenomenal year in 1996. The program provides materials designed to educate and encourage middle and junior-high school students to make appropriate lifestyle decisions including not smoking. During 1996, "Right Decisions Right Now" materials were



*When Eclipse was first introduced in test market in Chattanooga, Tenn., RJR sales representatives including Martha Katz explained the brand's attributes to local store owners.*



Because every kid  
needs a helping  
hand along the way



*RJR employee Jo Ann Robinson, center, coordinated RJR's volunteer effort for the United Way's Day of Caring. Robinson also spent the day volunteering at the Winston Lake YMCA, a United Way supported agency.*

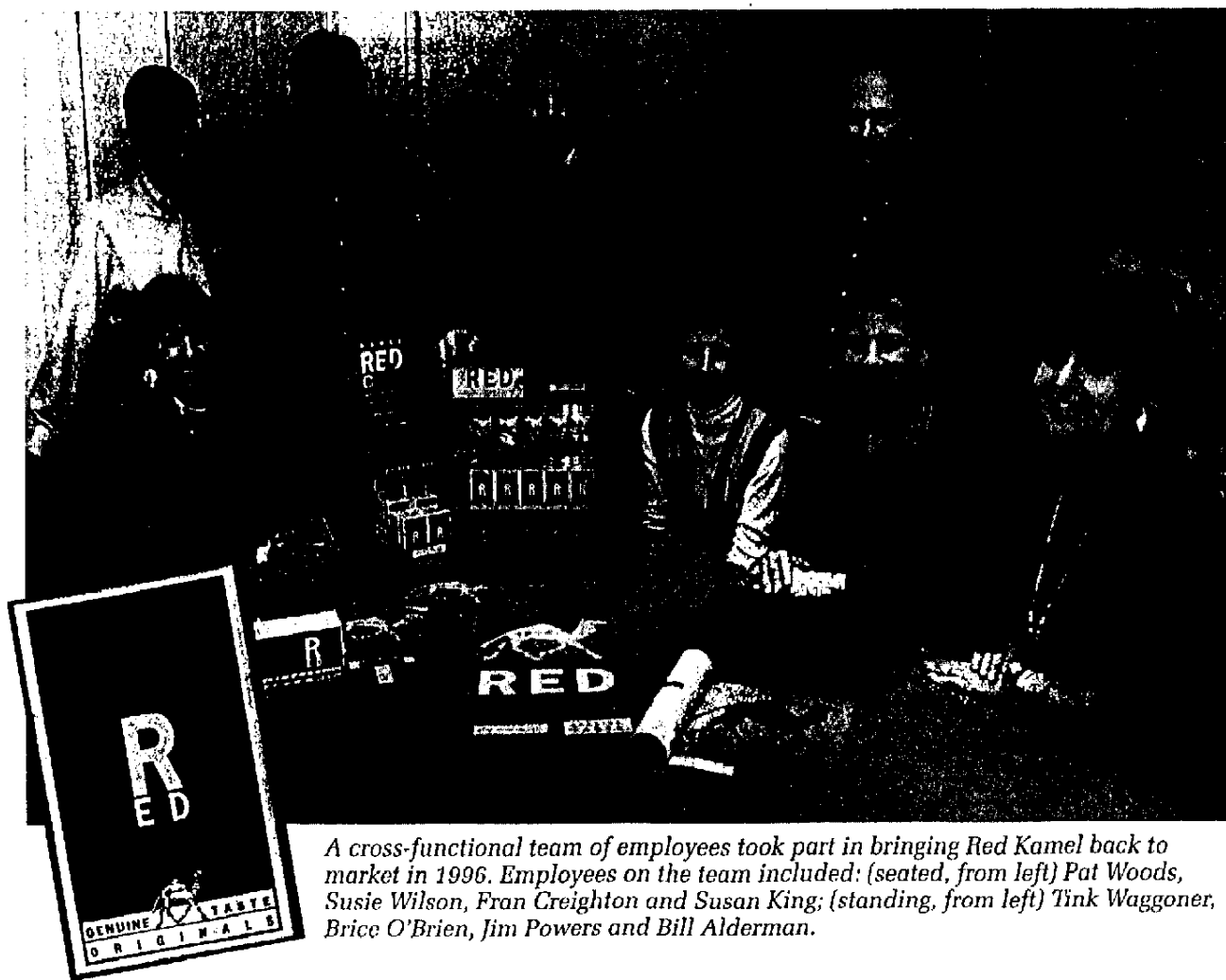


*In 1996, Doral Across America invited adult smokers to guess a location pictured in the brand's advertising for the opportunity to win great prizes — including five Doral Ultimate Recreational Vehicles (RVs), cartons of Doral and Zippo lighters.*

used in 60 percent of all middle and junior-high schools in the United States. In addition, the program's posters are used in 14 of the top 20 rated shows on television. Program directors hope that 1997 will bring even more success.

RJR's highly successful "Support the Law" program was discontinued in favor of a retail-industry approach to the issue of youth access to tobacco products. The new program, called "We Card," began at the end of 1995 and represents an unprecedented national effort to increase awareness of, and compliance with, minimum-age laws already on the books in all 50 states. The first year of the program has been very successful with many national organizations, including the U.S. Jaycees, endorsing the program. More than 300,000 requests for "We Card" materials were filled during 1996.

The program's message is ►►►



*A cross-functional team of employees took part in bringing Red Kamel back to market in 1996. Employees on the team included: (seated, from left) Pat Woods, Susie Wilson, Fran Creighton and Susan King; (standing, from left) Tink Waggoner, Brice O'Brien, Jim Powers and Bill Alderman.*

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simple — if you are under the legal age to purchase tobacco products, you will not be able to buy them. The program provides training materials and aids to help retailers properly teach employees to sell age-restricted products.

### Anniversaries

Another milestone for RJR during 1996 was the 35th anniversary of the Whitaker Park manufacturing facility and the 10th anniversary of Tobaccoville. Both facilities use cutting-edge technologies to efficiently produce some of the highest-quality tobacco products in the world. Continued modernization and improvements assure that they will continue to produce world-class products well into the 21st century.

Also this year, eight employees from distribution and logistics celebrated 20 or more years of safe driving records while on the job for the company.

### Brand Information

In 1996, Reynolds Tobacco continued to lead the industry in producing innovative new products and advertising. One of the biggest brand stories of the year was the introduction into test market of the company's Eclipse cigarette.

Eclipse is the new cigarette that reduces secondhand smoke by almost 90 percent and leaves practically no ashes, stains or lingering odor. Eclipse achieves this by primarily heating rather than burning the tobacco. The brand is currently being test marketed in Chattanooga, Tenn. Brand representatives say they are pleased with Eclipse's progress during 1996 and look forward to 1997.

Other RJR brands continue to build momentum as well. Camel saw the reintroduction of Red Kamel after 83 years and the subsequent introduction of a menthol style called Kamel Menthe. Not only does Kamel Menthe offer smokers a cool, smooth taste, but it is the only RJR brand to feature slide-o-matic action. This slide box allows smokers a unique option in cigarette packaging.

Camel with a "C" continues to improve in both marketshare as well as volume. In addition, 1996 saw the introduction into test market of a



RJR's President and CEO Andrew J. Schindler led an outdoor rally at Reynolds Tobacco in Winston-Salem to kick off the United Way of Forsyth County's 1996 United Way community campaign. At the event, children from Family Services' Head Start and YWCA's Families Empowering Center presented Schindler with a handprint quilt. Schindler chaired the community campaign and raised more than \$12 million for the 40 United Way supported agencies.



RJR's Eugene Stewart, left, winner of the 1996 RJR Race Starter Contest, met 1995 NASCAR Winston Cup Champion Jeff Gordon before the Winston Select race at the Charlotte Motor Speedway in May.

menthol version of the venerable Camel brand — Camel Menthol. Camel Menthol offers Camel smokers a menthol style while still enjoying the smooth blend of Turkish and domestic tobaccos that have made Camel famous worldwide.

Doral continued to demonstrate excellent growth during 1996, showing both marketshare and volume increases. The brand offered adult smokers several exciting promotions during the year, including the Doral Across America Sweepstakes and the first-ever Doral & Co. continuity catalog. The sweepstakes invited adult smokers to guess a location pictured in the brand's advertising for the opportunity to win great prizes. The continuity catalog, which included a collection of items discovered while traveling across America, offered smokers the chance to redeem pack seals for branded merchandise. Both promotions further solidified Doral's positioning as a brand that "cares more" and as a brand that appreciates adult smokers' business.

For Winston, 1996 was a year that saw the company's flagship brand try some new and innovative ideas. Specifically, R.J. Reynolds Tobacco Co. hired Long Haymes Carr to test a marketing campaign that repositions the Winston brand. The "No Bull" campaign, which positions Winston as a brand that is straight up and authentic, was launched into the state of Florida on July 1. The proposition is leveraged by the fact that Winston, as part of the repositioning, has removed all additives from its blend for the true taste of 100-percent tobacco. With taglines like "All Taste, No Additives, No Bull," authentic tobacco taste is also the foundation of advertising and retail programs in Florida. The brand reports that initial results are encouraging.

During 1996, Moonlight Tobacco Co. built on its niche-marketing momentum with striking, art-driven packaging and unique, great-tasting blends. Moonlight introduced two additions to its brand family — Planet (100-percent tobacco, no additives) and Icebox (menthol) — as the upstart company continued its mission of providing alternatives for adult smokers who want exceptional



*RJR Packaging won several awards during 1996. Among them was an award from Community Coffee, showing the company's appreciation for the high quality and customer service provided by RJR Packaging. Packaging employees (from left) Doug Owens, Albert Ku and Randy Lovette check press proofs for Community Coffee packaging to make sure the quality is maintained on every press run.*



*Planet and Icebox, introduced in 1996, are the newest additions to Moonlight Tobacco Co.'s multi-brand family of unique cigarette brands.*

tobacco blends and impressive styling. Moonlight also expanded its test markets in 1996. Moonlight brands are currently available in its original

test markets — New York, Chicago and Seattle, as well as in three new areas — Cleveland, Portland, Ore., and the state of North Carolina. ■

# State government relations fights for smokers

Anti-tobacco activists continued their concerted efforts to increase taxes and place additional restrictions on adult smoker's rights to enjoy a legal product. While the number of punitive proposals introduced was almost overwhelming, the vast majority of the anti-tobacco legislation was defeated.

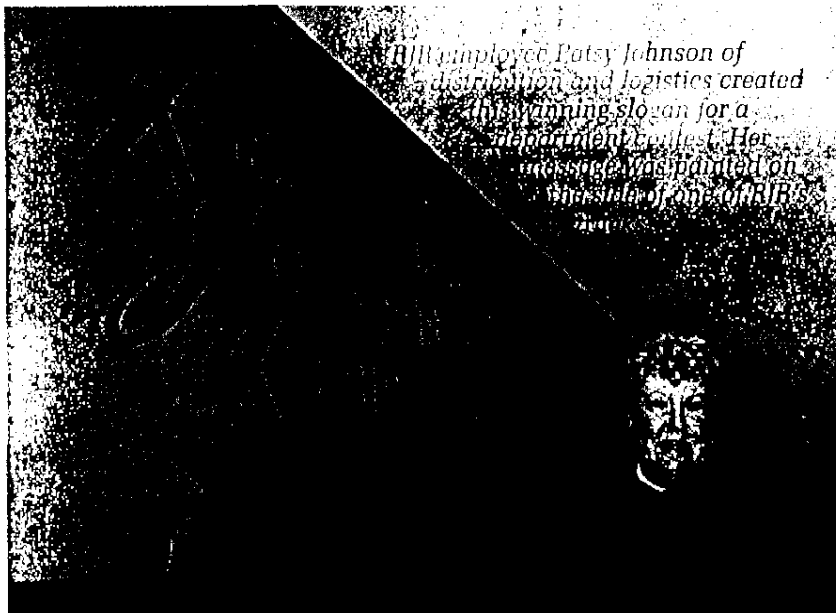
"RJR and the tobacco industry faced a number of significant challenges in 1996," says Roger Mozingo, vice president - state government relations. "While our department is the frontline defense, the cooperation and resources we received from many other areas of the company was critical to our success in 1996."

State government relations efforts resulted in the rejection of most proposals to hike taxes and place new restrictions on RJR's ability to market its products, "but the real winners," according to Mozingo, "are our customers."

Highlights of the 1996 state legislative activity include:

- Excise tax increase defeated in 27 states, passed in only one;
- Legislation favorable to RJR adopted in five states;
- Negative Medicaid liability legislation defeated in all 14 states where introduced;
- Smoking restrictions defeated in 37 states, passed in one, and;
- Sales/marketing restrictions defeated in all 21 states where introduced.

Mozingo added that the 1997 legislative sessions will present new threats to RJR and to adult consumers of tobacco products. "1997 will be a tough year," says Mozingo. "We must all redouble our efforts to meet the challenges to come."



*Members of the Tobacco Action Coalition visited Washington during 1996 to learn more about the legislative process in America.*

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